

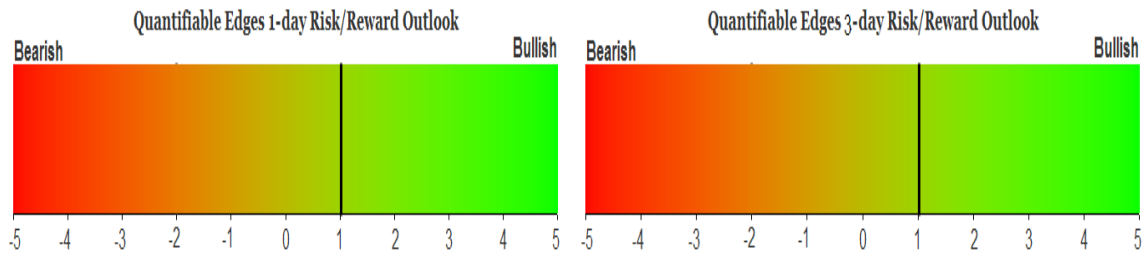
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 23, 2015

Volume 8 Issue 247

Market Overview



Signals Overview

| Aggregator | Aggressive VIX | QE Buy Pwr Swing |
|------------|----------------|------------------|
| Long | 100% Long XIV | Flat |

Tonight's Research Points

- Over the next several days seasonality is set to be especially strong.
- The relatively weak bounce over the last 2 days suggests a bearish edge.

Short-term Outlook

The Bottom Line

There could be more to this bounce, but one more day and the market will be short-term overbought.

Summary of Recent Active Studies (see Letters from listed dates for details)

| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|----------------------------|---|------------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| December 23, 2015 | Twas 3 Nights Before Christmas | 1-8 days | Bullish | | | |
| December 21, 2015 | Up 2 from 20-low < 3 ago | 1-2 days | Bearish | | | |
| December 21, 2015 | Gap -n- crap to bottom of 2-week range | 1-5 days | Bullish | | | |
| Active - Long Term | | | | | | |
| December 22, 2015 | Golden Cross | int term | Bullish | | | |
| December 14, 2015 | Santa Rally | thru Jan 2 | Bullish | | | |
| November 2, 2015 | Best 6 months | Nov-Apr | Bullish | | | |
| October 26, 2015 | NASDAQ leading SPX | int term | Bullish | | | |
| September 9, 2015 | FTD on mild breadth & volume | int term | Bearish | | | |
| November 3, 2014 | Quantitative Easing Ends | int term | Bearish | | | |
| July 22, 2013 | New High Divergence (Study of Tops) | int term | Bearish | | | |
| Dropped Tonight | | | | | | |
| December 21, 2015 | SPX < Bollinger Band. VIX not stretched | 1-2 days | Bearish | | | |

The Evidence

The market closed up for a 2nd day on Tuesday. The SPX gained 0.9%, the NASDAQ rose 0.7% and the Russell 2000 rallied 0.9%. Breadth was squarely positive as the NYSE Up Issues % came in at 75% and the Up Volume % was 84%. Total NYSE volume was again light and it probably will be for the rest of the year.

The study below is the “Twas 3 Nights Before Christmas” study, and I have shown it each year in the letter. It triggered as of Tuesday’s close. I show here how it has performed for a few of the major indices. First...SPX.

| Buy SPX at close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - present. | | | | | | | | | | | | |
|---|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
| 10 | 34,563.19 | 28 | 21 | 7 | 75.00 | 2,446.70 | 7,830.30 | -2,402.51 | -4,436.38 | 1.02 | 3.06 | 1,234.40 |
| 9 | 40,527.51 | 28 | 20 | 8 | 71.43 | 2,822.05 | 7,974.78 | -1,989.19 | -3,644.64 | 1.42 | 3.55 | 1,447.41 |
| 8 | 46,609.48 | 28 | 21 | 7 | 75.00 | 2,612.43 | 8,333.40 | -1,178.79 | -2,782.08 | 2.22 | 6.65 | 1,664.62 |
| 7 | 37,273.62 | 28 | 20 | 8 | 71.43 | 2,214.03 | 7,796.76 | -875.88 | -1,580.04 | 2.53 | 6.32 | 1,331.20 |
| 6 | 24,971.14 | 28 | 18 | 10 | 64.29 | 1,889.29 | 7,752.90 | -903.61 | -1,768.23 | 2.09 | 3.76 | 891.83 |
| 5 | 30,032.26 | 28 | 22 | 6 | 78.57 | 1,679.69 | 7,247.22 | -1,153.50 | -2,846.94 | 1.46 | 5.34 | 1,072.58 |
| 4 | 20,930.17 | 28 | 19 | 9 | 67.86 | 1,523.20 | 5,070.22 | -890.06 | -2,258.85 | 1.71 | 3.61 | 747.51 |
| 3 | 18,512.50 | 28 | 19 | 9 | 67.86 | 1,359.86 | 4,592.40 | -813.86 | -1,794.00 | 1.67 | 3.53 | 661.16 |
| 2 | 16,525.26 | 28 | 21 | 7 | 75.00 | 1,034.86 | 3,257.17 | -743.84 | -2,185.04 | 1.39 | 4.17 | 590.19 |
| 1 | 9,996.49 | 28 | 21 | 7 | 75.00 | 690.95 | 2,523.24 | -644.79 | -1,518.40 | 1.07 | 3.21 | 357.02 |

**26 of 28 instances (93%) closed above the entry price
at some point in the next week.**

The stats all appear quite strong. I would note the “Max Losing Trade” column shows very mild numbers from days 1-8, with no decline reaching 3%.

But as I discussed last week, smallcaps rule this time of year. So let's examine some other indices. First let's look at the Russell 2000.

**Buy RUT at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - present.**

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 61,738.08 | 28 | 23 | 5 | 82.14 | 3,346.71 | 11,169.90 | -3,047.27 | -5,643.30 | 1.10 | 5.05 | 2,204.93 |
| 9 | 65,383.37 | 28 | 22 | 6 | 78.57 | 3,619.62 | 10,353.42 | -2,374.72 | -5,973.50 | 1.52 | 5.59 | 2,335.12 |
| 8 | 73,324.54 | 28 | 24 | 4 | 85.71 | 3,297.71 | 9,130.50 | -1,455.11 | -2,948.40 | 2.27 | 13.60 | 2,618.73 |
| 7 | 64,638.63 | 28 | 25 | 3 | 89.29 | 2,701.00 | 7,189.56 | -962.12 | -1,809.60 | 2.81 | 23.39 | 2,308.52 |
| 6 | 59,279.08 | 28 | 23 | 5 | 82.14 | 2,689.15 | 8,941.50 | -514.30 | -977.82 | 5.23 | 24.05 | 2,117.11 |
| 5 | 49,958.85 | 28 | 23 | 5 | 82.14 | 2,348.51 | 11,299.50 | -811.39 | -2,385.63 | 2.89 | 13.31 | 1,784.24 |
| 4 | 33,974.12 | 28 | 21 | 7 | 75.00 | 1,904.78 | 7,987.50 | -860.89 | -1,845.90 | 2.21 | 6.64 | 1,213.36 |
| 3 | 30,381.25 | 28 | 23 | 5 | 82.14 | 1,448.38 | 5,136.75 | -586.29 | -1,591.20 | 2.47 | 11.36 | 1,085.04 |
| 2 | 24,099.11 | 28 | 21 | 7 | 75.00 | 1,312.60 | 4,317.75 | -495.08 | -930.30 | 2.65 | 7.95 | 860.68 |
| 1 | 13,239.73 | 28 | 22 | 6 | 78.57 | 730.75 | 2,299.70 | -472.78 | -1,354.50 | 1.55 | 5.67 | 472.85 |

**All 28 instances closed above the entry price
at some point in the next 4 days.**

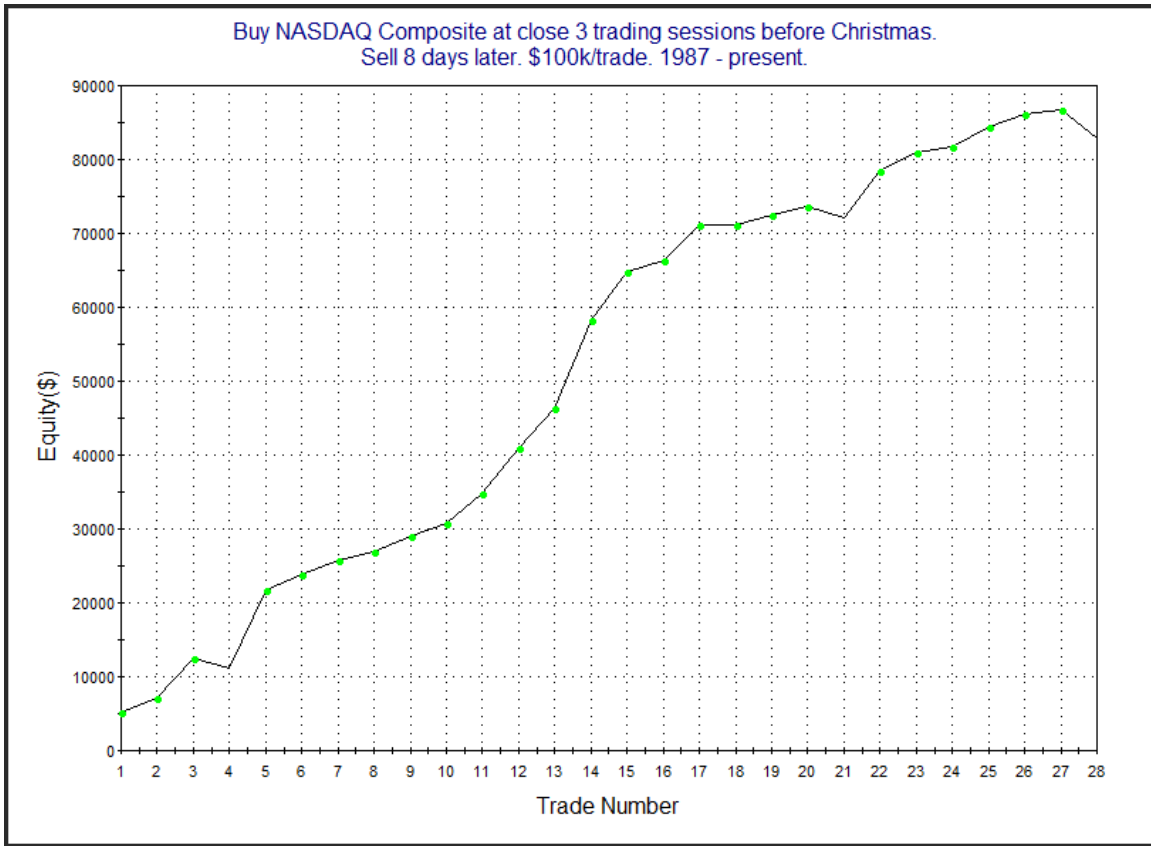
Results are substantially stronger here. And the Russell has never gone without providing an opportunity for a winning trade on a closing basis. Now the Nasdaq.

**Buy NASDAQ Composite at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - present.**

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 73,756.32 | 28 | 23 | 5 | 82.14 | 3,769.99 | 12,374.58 | -2,590.71 | -5,231.80 | 1.46 | 6.69 | 2,634.15 |
| 9 | 77,555.06 | 28 | 23 | 5 | 82.14 | 3,860.29 | 11,558.04 | -2,246.33 | -5,039.77 | 1.72 | 7.91 | 2,769.82 |
| 8 | 82,936.39 | 28 | 25 | 3 | 89.29 | 3,576.25 | 11,915.40 | -2,156.66 | -3,773.60 | 1.66 | 13.82 | 2,962.01 |
| 7 | 51,667.53 | 28 | 20 | 8 | 71.43 | 3,024.90 | 9,428.34 | -1,103.80 | -2,577.00 | 2.74 | 6.85 | 1,845.27 |
| 6 | 46,740.31 | 28 | 22 | 6 | 78.57 | 2,393.93 | 9,407.88 | -987.70 | -2,010.42 | 2.42 | 8.89 | 1,669.30 |
| 5 | 44,128.22 | 28 | 20 | 8 | 71.43 | 2,534.72 | 9,436.56 | -820.77 | -2,882.56 | 3.09 | 7.72 | 1,576.01 |
| 4 | 33,284.02 | 28 | 20 | 8 | 71.43 | 1,955.22 | 8,665.86 | -727.56 | -2,063.36 | 2.69 | 6.72 | 1,188.71 |
| 3 | 30,717.85 | 28 | 21 | 7 | 75.00 | 1,687.89 | 6,748.14 | -675.40 | -1,927.36 | 2.50 | 7.50 | 1,097.07 |
| 2 | 27,995.43 | 28 | 22 | 6 | 78.57 | 1,501.50 | 7,726.74 | -839.60 | -2,114.45 | 1.79 | 6.56 | 999.84 |
| 1 | 14,306.33 | 28 | 22 | 6 | 78.57 | 858.51 | 2,423.79 | -763.47 | -1,439.75 | 1.12 | 4.12 | 510.94 |

**Looking back to inception in 1971, 1986 was the only year
that NASDAQ failed to close above entry point within 5 days.**

Results just keep getting better. And only once since the inception of the Nasdaq did it go without some kind of move up in the following week. Below is the 8-day profit curve.



The curve is as impressive as the stats.

Lastly, let's look at the NDX.

Buy NDX Composite at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - present.

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 74,496.39 | 28 | 22 | 6 | 78.57 | 4,132.66 | 14,811.16 | -2,737.03 | -5,387.52 | 1.51 | 5.54 | 2,660.59 |
| 9 | 82,190.29 | 28 | 22 | 6 | 78.57 | 4,388.66 | 13,881.66 | -2,393.38 | -5,095.68 | 1.83 | 6.72 | 2,935.37 |
| 8 | 90,036.11 | 28 | 24 | 4 | 85.71 | 4,034.99 | 14,312.70 | -1,700.89 | -3,052.33 | 2.37 | 14.23 | 3,215.58 |
| 7 | 55,291.56 | 28 | 20 | 8 | 71.43 | 3,311.65 | 12,688.52 | -1,367.69 | -3,669.30 | 2.42 | 6.05 | 1,974.70 |
| 6 | 42,557.01 | 28 | 20 | 8 | 71.43 | 2,651.99 | 11,843.52 | -1,310.34 | -2,893.94 | 2.02 | 5.06 | 1,519.89 |
| 5 | 49,061.08 | 28 | 20 | 8 | 71.43 | 2,946.41 | 11,443.50 | -1,233.40 | -3,226.03 | 2.39 | 5.97 | 1,752.18 |
| 4 | 37,809.32 | 28 | 20 | 8 | 71.43 | 2,311.95 | 11,245.05 | -1,053.71 | -2,242.57 | 2.19 | 5.49 | 1,350.33 |
| 3 | 34,010.26 | 28 | 19 | 9 | 67.86 | 2,245.42 | 8,742.60 | -961.42 | -2,203.20 | 2.34 | 4.93 | 1,214.65 |
| 2 | 31,303.41 | 28 | 21 | 7 | 75.00 | 1,856.34 | 10,167.30 | -1,097.11 | -3,741.36 | 1.69 | 5.08 | 1,117.98 |
| 1 | 17,722.66 | 28 | 21 | 7 | 75.00 | 1,146.03 | 2,863.84 | -906.28 | -2,662.20 | 1.26 | 3.79 | 632.95 |

26 of 28 instances (93%) closed above the entry price at some point in the next 5 trading days.

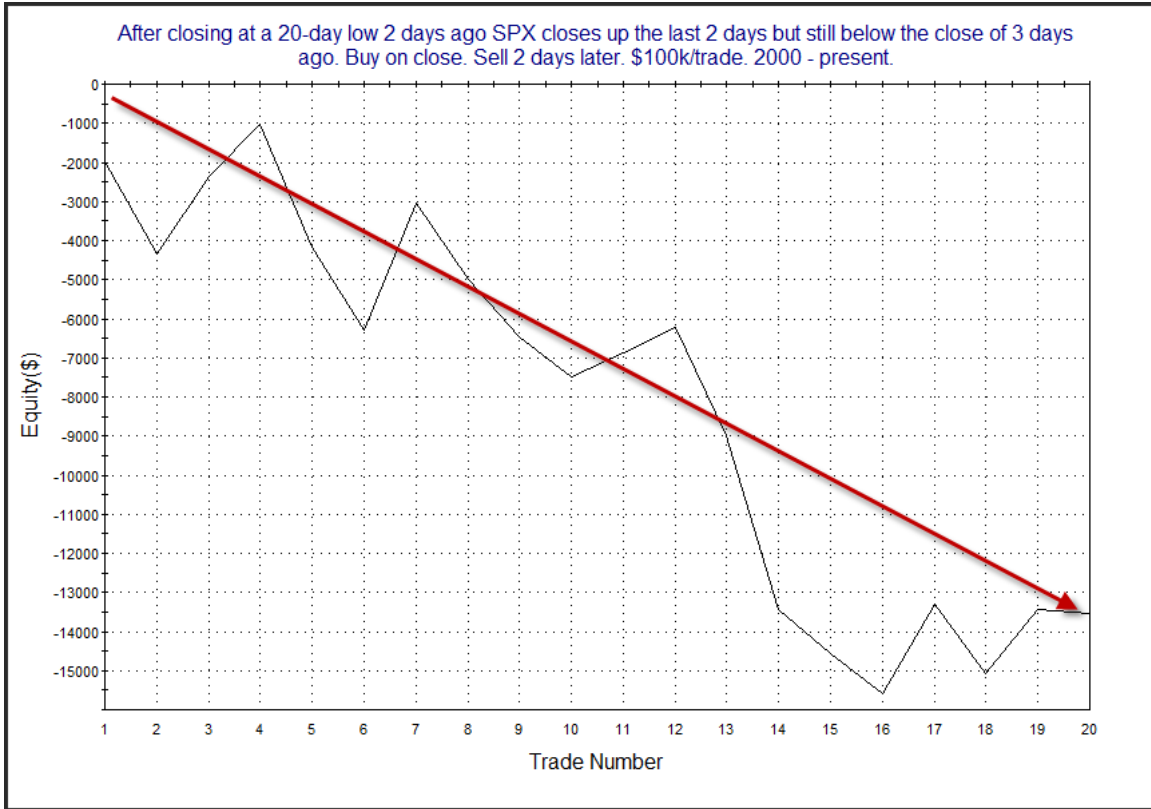
Numbers here are similar to the Nasdaq Composite, but the 8-day profits are the best we see among any of the indices.

In the 12/16/15 letter a few days ago I looked at scenarios where the SPX bounced from 20-day lows over a 2-day period but failed to make up for the losses of the day just previous to the 2-day bounce. I filtered this study by the 200ma. It triggered again today and I have updated it below.

After closing at a 20-day low 2 days ago SPX closes up the last 2 days but still below the close of 3 days ago. Buy on close. Sell X days later. \$100k/trade. 2000 - present.

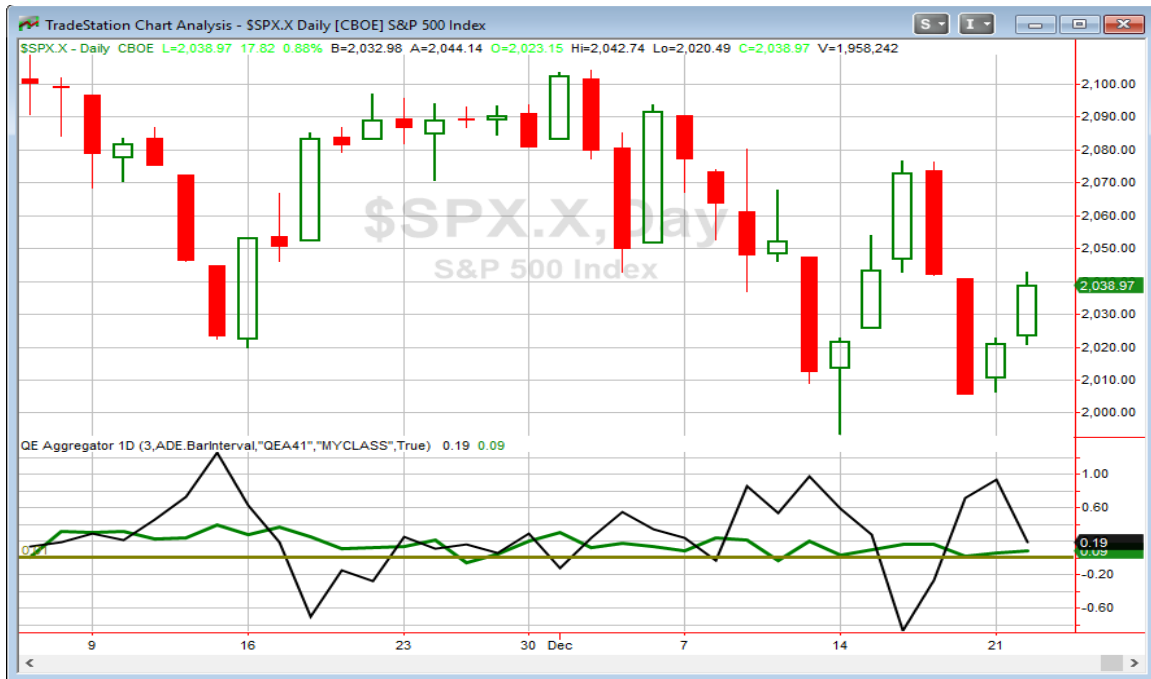
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 5 | -12,310.85 | 19 | 9 | 10 | 47.37 | 2,149.35 | 4,138.50 | -3,165.50 | -7,353.33 | 0.68 | 0.61 | -647.94 |
| 4 | -8,566.96 | 19 | 9 | 10 | 47.37 | 1,889.17 | 4,871.43 | -2,556.95 | -4,944.54 | 0.74 | 0.66 | -450.89 |
| 3 | -10,529.55 | 20 | 6 | 14 | 30.00 | 2,404.58 | 5,558.47 | -1,782.65 | -3,535.84 | 1.35 | 0.58 | -526.48 |
| 2 | -13,523.33 | 20 | 7 | 13 | 35.00 | 1,681.01 | 3,251.01 | -1,945.42 | -4,424.00 | 0.86 | 0.47 | -676.17 |
| 1 | -4,476.43 | 20 | 9 | 11 | 45.00 | 1,512.77 | 3,863.25 | -1,644.67 | -5,253.30 | 0.92 | 0.75 | -223.82 |

The stats appear to suggest a bearish edge. I have included below a 2-day equity curve.



The downslope here is fairly persistent despite the choppiness. This seems to support the suggestion of a bearish edge.

I have updated the [Aggregator](#) chart below.



With tonight's studies considered the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line declined but also held above zero. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is short-term oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

Based on the current studies, evidence is set to remain positive on Wednesday. This could change if more bearish evidence emerges. The Differential Pivot will be *inverted* at 2012.62 on Wednesday. That is 1.3% *below* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close down at least 1.3% on Wednesday in order to remain oversold. Anything less than that and it will be considered "overbought" versus recent expectations. So there is a very good chance we will see SPX flip from oversold to overbought on Wednesday.

Seasonality is strongly bullish and overall evidence is pointing higher for the short-term. But two solid up days make this an undesirable entry point. And even if the market does move higher on Wednesday, it will only be 1 day before the Aggregator would turn neutral or bearish. (This is thanks to the inverted pivot.) I don't view times with inverted pivots as good entry points. Often I will use them to look for a favorable exit. But unfortunately I was unable to get fills on my trade ideas the last couple of days with the mini-series of gaps higher and moves up. So rather than chase, I will just wait for the next favorable opportunity to arise.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/21 –slightly bullish

The intermediate-term outlook was last updated in the 12/21/15 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Broad Market Large Cap CBI – 0

Additional New Trade Ideas

A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|--------------|
| KMI(1/3) | 12/7/2015 | \$15.66 | \$15.32 | -2.17% | | sell on open |
| KMI(1/3) | 12/8/2015 | \$15.29 | \$15.32 | 0.20% | | sell on open |
| | | | | | | |
| | | | | | | |
| | | | | | | |

KMI met its exit target level and will be sold Wednesday at the open.

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